

## **902 KAR 8:165. Local health department accounting and auditing requirements.**

RELATES TO: 211.180, 212.230, 212.240, 212.245, 212.890, 2 C.F.R. Part 200

STATUTORY AUTHORITY: KRS 194A.050(1), 211.170(1), (3), (6)

NECESSITY, FUNCTION, AND CONFORMITY: KRS 194A.050(1) requires the Cabinet for Health and Family Services to promulgate administrative regulations necessary to qualify for federal funds. KRS 211.170(1), (3), and (6) require the cabinet to establish policies and standards of operation for Kentucky's local public health departments. This administrative regulation establishes minimum accounting and auditing requirements for Kentucky's local public health departments.

Section 1. Definitions. (1) "Auditee" is defined by 2 C.F.R. 200.6.

(2) "GAAP" means generally-accepted accounting principles.

(3) "Government auditing standards" means the standards and guidance for auditors and audit organizations who audit federal, state, and local government programs, outlining the requirements for audit reports, professional qualifications for auditors, and audit organization quality control.

Section 2. Accounting and Auditing Requirements. (1)(a) All recording by health departments in the books of account and all financial reporting shall be performed in accordance with:

1. This administrative regulation;
2. Cash or modified accrual accounting procedures as approved by the Department for Public Health;
3. 2 C.F.R. Part 200; and
4. GAAP.

(b) If GAAP conflicts with policies established in this administrative regulation, the local health department shall follow policies established in this administrative regulation.

(2) Each local health department shall be audited by a certified public accountant after the close of every fiscal year to assure receipts and expenditures have been properly authorized, recorded, and reported.

(a) The following items shall be audited:

1. Federal, state, and local funds and fees received and expended; and
2. Books, accounts, and other financial documentation, by cost center.

(b) An audit shall be conducted in accordance with:

1. GAAP; and
2. Government auditing standards.

(c) The audit of a local health department expending \$750,000 or more in federal funds shall be conducted in accordance with:

1. Paragraph (b) of this subsection; and
2. The provisions of 2 C.F.R. 200.500-200.520.

(d) The following reports shall be provided to the local health department and the Department for Public Health:

1. Auditor's opinion on the financial statements and on the schedule of expenditures of federal awards, as required by 2 C.F.R. 200.515(a);
2. Statement of assets, liabilities, and fund balance;
3. Statement of revenues and expenditures by cost center;
4. Statement of changes in fund balance;
5. Comparative schedule of budgeted to actual operating revenues and expenditures by

cost center;

6. Audit adjustments, or a statement that an adjustment is not required;
7. Schedule of expenditures of federal awards, as required by 2 C.F.R. 200.510(b);
8. Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with government auditing standards;
9. Single audit report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 C.F.R. 200.515(b);
10. Schedule of findings and questioned costs, in accordance with 2 C.F.R. 200.515(d), including the status of an uncorrected finding from a prior audit;
11. A summary of the auditor's results, in accordance with 2 C.F.R. 200.516;
12. Auditee's corrective action plan; and
13. Auditee letter:

- a. Describing an internal control or compliance deficiency not a reportable condition; and
- b. Referenced in the auditor's report on internal control and compliance.

(3) The reports described in subsection (2)(d) of this section shall be presented as prescribed by the American Institute of Certified Public Accountants Statement of Position 98-3, Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards, and subsequent amendments, except that a written auditee letter is required when internal control and compliance deficiencies are determined not to be reportable conditions.

(4) A report shall contain all reportable conditions, with those reportable conditions that are considered material weaknesses being appropriately segregated and identified. Any other matters conveyed to the auditee shall be in writing in the auditee letter, and shall be discussed during the exit conference. Reportable conditions presented as part of the reports shall be well developed and shall consist of the following components, to the extent practicable:

- (a) A statement of condition;
- (b) The criteria for the reportable condition;
- (c) The cause of the condition;
- (d) The effect of the condition;
- (e) A recommendation for correction; and
- (f) Auditee's response and corrective action plan.

(5) If applicable, the audit firm shall report on:

- (a) Uncorrected comments reported in the preceding audit;
- (b) The status of prior-year questioned costs, whether resolved with the federal grantor or unresolved; and
- (c) Questioned costs from the preceding audit and any unresolved questioned costs from prior years.

(6) The audit firm shall report immediately, in writing, to the Commissioner of the Department for Public Health, any fraud, irregularity, illegal act, or indication of an illegal act of the auditee, that comes to its attention during the audit proceedings.

(7) A vendor selected to conduct a local health department audit shall meet criteria provided in the request for proposal instructions provided by the Department for Public Health.

**Section 3. Internal Control Procedures.** (1) A local health department shall have written internal control procedures that shall be followed by the local health department. The chief executive officer, senior local health department management official, or other staff shall notify the Department for Public Health immediately if evidence of possible fraud or mismanagement is discovered.

(2) A local health department shall use an automated financial accounting system approved by the Department for Public Health.

(3) Local health departments shall submit all financial reports to the Department for Public Health in accordance with the instructions provided by the department (28 Ky.R. 768; 1160; 1402; eff. 12-19-2001; 45 Ky.R. 1430; eff. 1-23-2019.)